

id: 151162
date: 4/24/2008 12:37
refid: 08MADRID465
origin: Embassy Madrid
classification: CONFIDENTIAL
destination:
07MADRID1480 | 07MADRID270 | 07MADRID468 | 07MADRID607 | 07MADRID769 | 08MADRID366 | 08MADRID641 | 08MADRID860
header:
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FM AMEMBASSY MADRID
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RUCNSTF/TERRORISM FINANCE PRE NOTIFICATION COLLECTIVE
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C O N F I D E N T I A L SECTION 01 OF 02 MADRID 000465

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E.O. 12958: DECL: 04/23/2018
TAGS: ECON, EFIN, ETRD, EINV, KNNP, PREL, PGOV, MNUC, IR, SP
SUBJECT: POST PRESSES GOS ON IRAN FINANCIAL ISSUES

REF: (A) NEMROFF-SCHONANDER ET. AL 4/21/08 E-MAIL (B)
MADRID 00366 (C) 07 MADRID 01480 (D) 07
MADRID 00860 (E) 07 MADRID 00769 (F) 07
MADRID 641 (G) 07 MADRID 607 (H) 07 MADRID
00602 (I) 07 MADRID 00468 (J) 07 MADRID 00270

Classified By: Deputy Chief of Mission Hugo Llorens for reasons 1.4(b)
and 1.4 (d)

1. (C) Summary: The Ambassador pressed the head of Spain's Export Credit Insurance Company (CESCE) on 4/21/08 to limit export credit guarantees to Iran. Separately, EconOff met on 4/21/08 with a Ministry of Foreign Affairs (MFA) official to discuss Spain's views on Iran sanctions. The MFA official explained that Spain will continue to implement United Nations Security Council Resolutions (UNSCRs) on Iran, and that Spain intends to be in the "main current" of EU sanctions policy on Iran. However, Spain would also take

into account its economic/commercial interests in Iran, especially in the oil and gas sector, and would insist on equitable treatment for its companies. End Summary

AMBASSADOR'S MEETING WITH
CESCE HEAD

2.(C) The Ambassador met with CESCE Director General Joaquin de la Herran. His company issues export credit insurance for Spanish exporters. The GOS is the majority shareholder in CESCE, with BBVA, Banco Santander and 41 other institutions owning the rest of the company. The actual loans are usually provided by major Spanish banks such as BBVA and Santander. The Ambassador pointed out that in terms of stock, CESCE's insurance policies for exports to Iran are the third largest with roughly euros 750 million in outstanding export credit insurance guarantees at the end of 2006. (Note: Again, this refers to the stock of outstanding export credit insurance policies. Annual Spanish exports to Iran are comparatively modest. In 2007, Spain exported euros 354 million to Iran, which represented 0.23 percent of Spain's exports to the world. In 2007, Spain imported about euros 1.2 billion from Iran, mostly petroleum products.) The Ambassador stressed that exports to Iran should be scrutinized carefully, and that credit guarantees should be issued sparingly.

MEETING WITH MFA OFFICIAL

3. (C) EconOff met with Subdirector General for Bilateral Economic Relations with Developing Countries Alejandro Alvargonzalez San Martin to discuss Spain's views on Iran financial sanctions. Alvargonzalez' views track broadly with the positions that Spain reportedly took at the 4/18/08 EU Political and Security Committee meeting (ref A). Spain has no objection to moving on the pending EU autonomous designations list. Spain also accepts and implements sanctions on Bank Mellî and Bank Saderat. Alvargonzalez said that Bank Mellî had initially been a problem for Spain as Spanish exporters had traditionally used Bank Mellî for monetary transfers (not loans). Although ref A reports that Spain argued against new measures at the April 18 meeting, Alvaronzalez said that Spain would consider new sanctions on their merits. Alvargonzalez explained that Spain "could accept a lower level" of export credits for Iran, but that given Spain's relatively low level of exports to Iran (compared with other EU countries), it could not accept proportional cuts in export credits. He indicated that Spanish companies needed a floor level of business with Iran in order to be competitive for the day when economic relations with Iran are normalized. Alvargonzalez added that sanctions in the oil and gas sector were not acceptable to Spain. He said that Spain's major economic/commercial interest in Iran is Repsol's possible investment in the South Pars gas field.

COMMENT

4. (C) Ambassador will meet with the new Minister of Industry, Tourism and Trade on 4/24/08 and will reinforce our message on Iran. Ambassador and EmbOffs will continue to press for stronger action on Iran with MFA, CESCE (and CESCE shareholders) and other officials as well. Last year, the Ambassador met with Repsol CEO Antonio Brufau (ref J) to discuss Repsol's possible Iran investment. At that meeting, Brufau told the Ambassador that a final investment decision

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would not be made by Repsol until the third quarter of 2008. The Embassy will seek opportunities to continue discourage Repsol from investing in Iran's oil and gas sector.

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